

Iowa State University
Response to Joint Economic Development Appropriations Subcommittee
January 29, 2009

Ongoing state appropriations made through the Joint Economic Development Appropriations Subcommittee fund three principal economic development programs at Iowa State University: 1) Iowa State University Research Park Corporation (ISURPC), 2) Small Business Development Center (SBDC), and 3) Institute for Physical Research and Technology (IPRT). The Directors of these three programs were requested to respond to a series of questions regarding their mission and budget. Their responses are below.

Iowa State University Research Park Corporation (ISURPC)

Background

The Research Park receives \$158,546 annually in General Fund appropriations. The funds are used to offset the costs of supporting new and developing technology companies. In addition the Park also receives \$186,000 annually from the Grow Iowa Values Fund for the same purpose.

The Research Park is a non-profit corporation that generates \$2.5 million in revenue annually and is self sustaining. State funds support the economic development mission of the Park by providing funds to:

1. Support providing space and services to start up and early stage technology companies.
2. Actively encourage and support faculty, students and members of the general public interested in starting companies.
3. Work with state and local economic development officials to support the growth and expansion of existing technology companies.
4. Actively recruit new existing technology companies.
5. Encourage Iowa State University students to remain in Iowa through actively encouraging and supporting internships, and other employment opportunities for students at the Research Park.

Currently the Research Park:

1. has 56 tenants employing 750 people.
2. has had nearly 60 companies relocate from the Park to other locations in Iowa, collectively those companies employ 1950 people.
3. has developed over 300,000 sf of multi-tenant space providing the labs and technology infrastructure required by high technology companies.
4. has supported tenants that have secured nearly \$100 million in funding from private equity, loans and government grants.
5. added 10 new tenants and affiliates in FY2007-08.
6. grew by 130 employees in FY2007-08.

Committee Questions:

How many new FTE positions have you added since 2007? Will you provide a listing of all the FTE positions complete with job titles, salary and benefits for the position and whether the position is filled? If it is not filled, how long has the FTE position been open?

In 2008 the Research Park added a full-time marketing manager to lead our efforts to attract existing technology companies to the research Park and to provide marketing support to companies currently located at the Park.

The Marketing Manager position salary is \$60,900 and benefits costs are \$20,693. This position is not funded by the economic development general appropriation monies.

How will you implement the across the board cut?

The budget cut will reduce the funds available to support start-up companies and recruit existing technology companies.

If you were forced to cut your budget by ten percent, what suggestions would you have to reduce the budget and/or reduce the responsibilities of your department?

A 10% reduction in our state appropriation will reduce the number of faculty and students that we can encourage and support, which will result in fewer new technology companies being formed. There is no other agency that works at the earliest stage to encourage faculty and students to consider formation of a new company.

What assets does your department have that can be leased or sold? What services do you provide that could be privatized or outsourced?

The Research Park Corporation has developed \$20,177,794 in fixed assets, (building and improvements), the assets carry long term debt of \$15,829,968, (conventional bank loans). If the Research Park assets were sold it would convert the Park from an economic development focus to a typical commercial development with a focus on generating return on the assets.

What is the core mission of your department?

ISURPC will:

- Provide an environment where established technology-related organizations and science and technology entrepreneurial ventures can develop and prosper in Iowa.
- Establish recognized leadership in the development and support of thriving entrepreneurial technology ventures.
- Create more economic opportunities and a more diverse tenant base through attraction of established technology related organizations.

- Provide Research Park tenants infrastructure, services and resources enable growth and success.
- Through environment, organization and network improve the entrepreneurial culture of the Park and Iowa State.

Could you prioritize your department's responsibilities as it relates to the budget?

1. Encouragement and support of new technology companies.
2. Recruitment of established technology companies to Iowa.
3. Support and development of current tenant base.

What services or programs does your department provide that are similar or over-lapping with services or programs provided by other departments?

None. The Research Park at Iowa State and the Research Park at the University of Iowa are the only two research Parks in the state of Iowa.

Name programs or services in your department that the expense of providing the program or service exceeds the benefit provided.

None. Currently state appropriations support business incubation services at the Research Park, but state funds do not cover the full costs of these activities.

How many new FTE positions have you added since FY 2001?

One

Small Business Development Centers (SBDC)

Background

The Iowa Small Business Development Centers (SBDC) is an outreach program hosted by the College of Business and funded in part by the United States Small Business Administration (SBA). SBA funding is required to be matched on a 1:1 basis, not less than 50% of which must be in cash. The SBDC's budget for the current fiscal year \$2,291,942; of that amount, \$1,060,000 comes from the state's general fund. The SBDC has 15 service centers throughout the state – four hosted by Regent institutions, one by a regional economic development council, and 10 by community colleges.

The SBDC provides free counseling to small businesses (under 500 employees) primarily in the areas of finance, marketing, human resources, strategic planning, capital formation, and pre-venture (start-up) analysis and planning. It also provides low-cost educational programs and market research services.

In FY2008, the SBDC spent 13,217 hours counseling 2,238 clients. Those clients added or retained 1,035 jobs and raised \$76,136,290 in new capital that year. During that same period, the SBDC held 332 workshops attended by 4,376 people, and SBDC service centers fielded over 26,200 requests for information from persons other than clients.

The SBDC is the only nationally accredited business counseling service in the state of Iowa.

Committee Questions:

How many new FTE positions have you added since 2007? Will you provide a listing of all the FTE positions complete with job titles, salary and benefits for the position and whether the position is filled? If it is not filled, how long has the FTE position been open?

Excluding GIVF monies, only 54% of the Small Business Development Center budget comes from the state general fund.

Since FY2007 the Small Business Development Center has added a net 2.3 FTEs.

1. A service center was reopened in FY2008 at Western Iowa Tech in Sioux City that employs one FTE Regional Director. Most of the salary and benefits for that position is paid from federal monies. The portion that is paid from state funds is \$19,953 for salary and \$7,682 for benefits.
2. An FTE Program Coordinator position was added at the Mid-Iowa SBDC in Urbandale in FY2008. The salary for that position is \$25,046; benefits are \$8,190, all of which are paid from state funds.
3. The Regional Director at the Southeast Iowa Community College SBDC was increased from 0.67 FTE to 1.0 FTE in FY2009. Most of the salary and benefits for that position is paid from federal monies. The incremental increase in state funds in FY2009 for that

position is \$7,036 for salary and \$1,402 for benefits. (Total state funding for that position is \$21,320 in salary and \$4,249 in benefits.)

How will you implement the across the board cut?

As a result of the 1.5 percent reversion in December, the lead SBDC reduced its materials & supplies budget by \$16,371.

Provide us the list of suggested cuts you provided the Governor in November or December of 2008.

See answer to Question 2, above.

If you were forced to cut your budget by ten percent, what suggestions would you have to reduce the budget and/or reduce the responsibilities of your department?

The responsibilities of the Small Business Development Centers are set by Congress and the Cooperative Agreement with the Small Business Administration. All activities engaged in by this department are mandated responsibilities.

The Cooperative Agreement with the SBA requires a 1:1 match, half of which must be in cash. A 10 percent reduction in state funds would result in a 15 percent cash reduction, plus another 5 percent reduction in monies for in-kind and indirect costs. Therefore, a 10 percent cut in the state budget would result in the loss of \$159,000 in cash and a loss of approximately \$53,000 in indirect and in-kind payments, for a total reduction (state and federal monies) of \$212,000.

The average cash outlay from this department to operate a service center is \$81,000. A 10 percent reduction in state funding would necessitate the closing of at least one and possible two service centers. Not only would the quality of service to small business be adversely affected in the region where the center is closed, but quality of service would decline in the two or three contiguous regions that would have to pick up the territory served by the closed center(s). We might be able to avoid closing a second center by eliminating all payments to independent contractors who perform counseling part-time, but in that scenario quality of service would be adversely affected statewide, and because of client volumes at least one of our centers would find it virtually impossible to function without these independent contractors.

What assets does your department have that can be leased or sold? What services do you provide that could be privatized or outsourced?

No such assets exist.

All of our service centers are staffed by only one Regional Director, who is also the primary counselor, so outsourcing that function would mean closing the service center.

What is the core mission of your department?

The core mission of the Small Business Development Center is found at 13 C.F.R. §130.340, which reads in pertinent part:

(a) Services. The SBDC network must provide prospective and existing small business persons and entities with Counseling, Training and Specialized Services, concerning the formation, financing, management and operation of small business enterprises, reflecting local needs....

(b) Access to Capital. (1) SBDCs are encouraged to provide counseling services that increase a small business concern's access to capital, such as business plan development, financial statement preparation and analysis, and cash flow preparation and analysis.

(c) Special emphasis initiatives. From time to time, SBA may identify portions of the general population to be targeted for assistance by SBDCs....

All Small Business Development Center activities and initiatives are focused on discharging this mission in compliance with applicable statutes and regulations.

Could you prioritize your department's responsibilities as it relates to the budget?

The Small Business Development Center's activities and expenditures are primarily one-on-one business counseling and secondarily training, both of which are federally mandated services. This department does not engage in – and has no money to engage in -- activities that are not part of its core mission described above.

What services or programs does your department provide that are similar or over-lapping with services or programs provided by other departments?

None. However, one consideration that might be made is to discuss with the Small Business Development Center any provisions for technical business assistance that might be included in proposed legislation. The Small Business Development Center's expertise and geographic network would typically make it the most cost-effective provider of general technical business assistance for new economic development initiatives, and consultation with this department could assist in defining the kinds of technical assistance needed to help make such proposed legislation successful in accomplishing its intent.

Name programs or services in your department that the expense of providing the program or service exceeds the benefit provided.

None. In FY2008 the Small Business Development Centers had a benefit-to-cost ratio of \$5.41 in increased sales and income taxes for every tax dollar spent on counseling services, and our clients raised \$10.98 in capital for every tax dollar spent on the program. The economic benefit

of training and education programs is more difficult to quantify, but the modest fees collected from attendees cover the costs of these endeavors.

How many new FTE positions have you added since FY 2001?

This department underwent a 60% budget cut in state funds in FY2003, resulting in significant staff reductions. Federal funding has been essentially flat since then, and state funding still has not reached the level of funding dedicated to this program in FY2001.

Since FY2001, the Small Business Development Centers have lost a net 3.2 FTEs.

Institute for Physical Research and Technology (IPRT)

Background

In addition to the potential loss of faculty, staff, and students if IPRT is not funded, the State loses a critical engine in its economic development efforts. The following provides examples of IPRT's impact in Iowa and illustrates activity that occurs through IPRT's Special Appropriations funding.

World-class research centers promote economic development – Universities, industries, and entrepreneurs work together to move technology from the researcher's bench to new products that are made and sold by new and existing companies. The State's investment in IPRT fuels the infrastructure for Iowa's world-class research facilities at Iowa State University that:

- bring federal tax dollars back to Iowa; in FY08, the Special Appropriations investment in IPRT was leveraged to almost \$22M;
- make and keep Iowa's businesses world class; examples include: Virtual Reality Applications Center and Deere & Company collaborated to integrate VR in Deere's product development and design process; and the Center for Sustainable Environmental Technologies and Pioneer Hi-bred International built and tested a gasifier that converts waste seed corn to generate process heat; and
- spin off high-tech companies that provide high-tech jobs for Iowa graduates; a recent example is the following spin-off from IPRT technologies:
 - Catilin, Inc., Ames. Three Iowa State University proprietary biodiesel catalysts technologies developed by Dr. Lin, director of IPRT's Center for Catalysis (CCAT) have been successfully transferred to an Iowa-based startup company, Catilin, Inc. These unique recyclable solid catalysts allow Catilin to attract a \$3 million investment from a California-based venture capital firm, Mohr Davidow Ventures. Even though the company was founded in May 2007, Catilin has already built a pilot plant for biodiesel production with one million gallon annual production capacity at the Biomass Energy Conversion (BECON) facility of the Iowa Energy Center in Nevada, Iowa using the unique CCAT solid catalyst technologies. Currently, there are 9 full-time employees in Catilin.

IPRT Works for Iowa – Iowa manufacturers' gateway to the facilities and expertise of world-class research centers is through IPRT Company Assistance. In the past five years, the outreach program has carried out more than 600 projects with Iowa companies and entrepreneurs. Projects from reporting companies have an economic impact averaging \$13.9 million per year over a five-year span. The impact comes from increased and retained sales, cost savings and investments, according to surveys of Iowa companies assisted by IPRT Company Assistance. None of these projects would have occurred without the Special Appropriations funding and the programs will cease if funding is lost.

Committee Questions

How many new FTE positions have you added since 2007? Will you provide a listing of all the FTE positions complete with job titles, salary and benefits for the position and whether the position is filled? If it is not filled, how long has the FTE position been open?

No new positions were added in FY08.

How will you implement the across the board cut?

IPRT will reduce the supplies and services and travel budgets. Budget cuts will reduce our ability to inform Iowa manufacturers about our Company Assistance programs. Fewer companies will be served by IPRT Company Assistance.

If you were forced to cut your budget by ten percent, what suggestions would you have to reduce the budget and/or reduce the responsibilities of your department?

If IPRT were forced to cut its budget by ten percent, at least five full-time positions would have to be eliminated. In recent years the IPRT economic development programs suffered a loss of over \$2,500,000 in budget cuts. Although much of the program has survived those cuts, it now serves only a fraction of the Iowa companies it once served and the current personnel are overextended. Each year since the budget cuts, both the technology commercialization unit and the technical assistance units have had many unmet requests for assistance to Iowa companies. Over 75 percent of the Iowa manufacturers that IPRT serves have less than 100 employees.

What is the core mission of your department?

The Institute for Physical Research and Technology is a network of 10 research and technology transfer centers that supports economic development through world-class, interdisciplinary research. IPRT is a critical component in the university's efforts to strengthen the economic vitality of the State of Iowa, linking the university research community to Iowa manufacturers and entrepreneurs. IPRT's mission is to

- promote world-class, fundamental and applied interdisciplinary research;
- foster the development of new technologies;
- facilitate technology transfer; and
- provide technical assistance to Iowa manufacturers and entrepreneurs.

Because of the interdisciplinary and applied nature of the centers, IPRT centers are well positioned to assist economic development in Iowa. IPRT Company Assistance helps companies meet product development needs by finding research collaborators and managing projects to completion. IPRT cost-sharing funds can pay up to 50 percent of project costs. The materials and nondestructive evaluation assistance program provides Iowa manufacturers easy access at no-cost to state-of-the-art labs and IPRT expertise.

Could you prioritize your department's responsibilities as it relates to the budget?

Providing Iowa manufacturers easy access at no cost to state-of-the-art labs and IPRT expertise and helping companies meet product development needs by finding research collaborators are the top economic development priorities.

What services or programs does your department provide that are similar or over-lapping with services or programs provided by other departments?

IPRT services are technical services and do not overlap the services provided by other ISU economic development units.

Name programs or services in your department that the expense of providing the program or service exceeds the benefit provided.

None

How many new FTE positions have you added since FY 2001?

No new positions were added in FY08.

FY09 GIVF funding is being used to partially purchase much needed capital equipment for the technical assistance component of IPRT Company Assistance. Funds are generally not available for these types of purchases from our state economic development appropriation due to a drastic cut in funding in FY2003. Two pieces of equipment that are being purchased include a 5-Axis Manipulator and an Optical Emission Spectrometer (OES). The 5-Axis Manipulator upgrades a piece of equipment that is over 10 years old. This upgrade will aid in inspection by having the 5th axis of tilt, something that will be highly useful for work related to failure analysis inspections for Iowa companies. It is imperative to provide quick-turnaround on failure analysis projects, as many times an Iowa manufacturer will have to shut down their production lines until the cause of failure is determined. The OES gives IPRT Company Assistance the capability to perform elemental materials analysis of a variety of ferrous and non ferrous metals commonly used by Iowa manufacturers. The advantages of acquiring this equipment includes materials analysis being employed more frequently – providing more thorough analysis to our clients--and rapid turnaround aiding in project planning and quick response time, especially when sequential analyses are required